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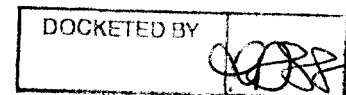
June 30, 2011

HAND DELIVERED

Steve Olea, Director
Utilities Division
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

Arizona Corporation Commission
DOCKETED

JUN 30 2011



Re: *SWTC's Annual Equity Analysis Update;*
Decision No. 72030; Docket No. E-04100A-09-0496

Dear Mr. Olea:

In Decision No. 72030 (Finding of Fact No. 50, Third Ordering Paragraph at page10), the Commission instructed Southwest Transmission Cooperative, Inc. ("SWTC") to "continue to file annual equity analyses and forecasts on June 30th of each year." In compliance with that requirement, the purpose of this initial filing is twofold: (1) to provide an update on SWTC's equity building progress as measured against the 2005 Financial Forecast which has provided the baseline for SWTC's annual reports for the past several years and (2) to supply equity projections from SWTC's most recent financial forecast as the baseline for future annual reporting on SWTC's equity progress.

The equity analysis which SWTC filed with the Commission in June 2006 used the 2005 Financial Forecast as the base upon which progress reports have been filed since then. That forecast was prepared internally and approved by the SWTC Board of Directors in 2004. Based on that 2005 forecast, the Base Case (Exhibit A to the June 2006 Equity Analysis) projected that equity as a percentage of total assets would be 3.80% as of year end 2010. As of the end of 2010, SWTC's actual equity/asset percentage was 6.8%.¹ The 2005 Financial Forecast had projected that SWTC would have a negative 2010 net margin of about \$309,000. In fact, the audited financial results show that the 2010 actual net margin was a negative \$815,000; however, \$465,000 of that loss was accounting write-offs of preliminary survey and investigation charges.

¹ If, instead, it was expressed as equity as a percentage of total capitalization, the 2010 year end result is slightly higher at 7.05%.

Steve Olea, Director
June 30, 2011
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SWTC recently completed a 2011 Preliminary Financial Forecast which replaces the 2005 Financial Forecast. The equity projections and associated equity/asset and equity/total capitalization percentages associated with this forecast are shown in the attached Exhibit A. These projections will be used for baseline comparison purposes for future equity progress annual reports.

The 2011 Preliminary Financial Forecast contains several major items that were not contained in the 2005 Financial Forecast: (1) the forecast reflects the rate increase that went into effect January 1, 2011 (Decision No. 72030) which resulted in a revenue increase of approximately \$6.8 million above test-year adjusted revenues for test-year adjusted operating revenues of \$34.6 million; (2) SWTC's construction work plan has been revised to reflect a much lower level of expected capital expenditures over the forecast period; (3) the 2005 Financial Forecast did not include a 50 MW N-1 point-to-point contract with Arizona Electric Power Cooperative, Inc. which is reflected in this forecast; (4) various cost-saving measures that are expected positively to contribute to SWTC's net margins over the forecast horizon; and (5) periodic rate filings.

The 2011 Preliminary Financial Forecast expects continued gradual improvement in total margins and, therefore, improving equity/asset and equity/total capitalization percentages (Lines 45 and 46 of Exhibit A). The expected higher margins and improved capitalization percentages are a result of the items outlined above.

Should Staff have questions or need additional information concerning this filing, please contact me or Gary Pierson.

Very truly yours,

GALLAGHER & KENNEDY, P.A.



By:

Michael M. Grant

MMG/plp
15169-13/2791933v2
Attachment

cc: Carmel Hood, Compliance Section (delivered)
Gary Pierson

Original and 13 copies filed with Docket
Control this 30th day of June, 2011.

EXHIBIT A

Southwest Transmission Cooperative, Inc.
Preliminary 2011 Financial Forecast

Balance Sheet

Liabilities

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Actuals | | | | | | | | | | | |
| Memberships 26 | \$1 | \$1 | \$1 | \$1 | \$1 | \$1 | \$1 | \$1 | \$1 | \$1 | \$1 |
| Patronage Capital 27 | \$9,438 | \$9,398 | \$9,398 | \$9,398 | \$9,398 | \$9,398 | \$9,398 | \$9,398 | \$9,398 | \$9,398 | \$9,398 |
| Operating Margins Current and Prior Years 28 | (\$996) | \$1,561 | \$4,960 | \$6,548 | \$8,488 | \$10,435 | \$11,637 | \$13,770 | \$14,624 | \$15,653 | \$15,653 |
| Non Operating Margins 29 | \$181 | \$1,512 | \$1,763 | \$1,983 | \$2,164 | \$2,350 | \$2,597 | \$2,851 | \$3,113 | \$3,382 | \$3,660 |
| Total Margins_Equities 30 | \$8,624 | \$12,471 | \$16,121 | \$17,931 | \$20,051 | \$22,184 | \$23,633 | \$24,867 | \$26,282 | \$27,405 | \$28,712 |
| LTD RUS 31 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| LTD FFB 32 | \$99,811 | \$109,008 | \$120,778 | \$122,708 | \$123,741 | \$124,539 | \$125,301 | \$125,764 | \$126,068 | \$126,269 | \$126,337 |
| LTD Other 33 | \$13,957 | \$13,925 | \$12,258 | \$10,480 | \$8,516 | \$6,646 | \$5,384 | \$4,503 | \$3,616 | \$3,095 | \$2,541 |
| Total Long Term Debt 34 | \$113,768 | \$122,933 | \$133,036 | \$133,188 | \$132,258 | \$131,184 | \$130,685 | \$130,267 | \$129,684 | \$129,364 | \$128,878 |
| Accum Operating Provisions 35 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Total Non Current Liabilities 36 | \$122,392 | \$122,933 | \$133,036 | \$133,188 | \$132,258 | \$131,184 | \$130,685 | \$130,267 | \$129,684 | \$129,364 | \$128,878 |
| Notes Payable 37 | \$0 | \$1,525 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Accts Payable 38 | \$1,279 | \$1,446 | \$1,560 | \$1,331 | \$1,300 | \$1,823 | \$1,874 | \$1,941 | \$2,010 | \$2,082 | \$2,155 |
| Taxes Accrued 39 | \$900 | \$1,069 | \$983 | \$1,098 | \$1,274 | \$1,342 | \$1,356 | \$1,364 | \$1,371 | \$1,376 | \$1,381 |
| Interest Accrued 40 | \$1,469 | \$285 | \$253 | \$216 | \$175 | \$137 | \$114 | \$102 | \$90 | \$88 | \$87 |
| Other Current Liabilities 41 | \$393 | \$873 | \$873 | \$873 | \$873 | \$873 | \$873 | \$873 | \$873 | \$873 | \$873 |
| Total Current Liabilities 42 | \$4,040 | \$5,198 | \$3,669 | \$3,518 | \$3,622 | \$4,175 | \$4,217 | \$4,280 | \$4,344 | \$4,419 | \$4,496 |
| Deferred Credits 43 | \$430 | \$1,247 | \$1,247 | \$1,247 | \$1,247 | \$1,247 | \$1,247 | \$1,247 | \$1,247 | \$1,247 | \$1,247 |
| Total Liabilities 44 | \$126,863 | \$141,849 | \$154,073 | \$155,883 | \$157,178 | \$158,790 | \$159,781 | \$160,661 | \$161,557 | \$162,435 | \$163,332 |
| Equity Percentage 45 | 6.80% | 8.79% | 10.46% | 11.50% | 12.76% | 13.97% | 14.79% | 15.48% | 16.27% | 16.87% | 17.58% |
| Equity as a Percent of Capitalization 46 | 7.05% | 9.21% | 10.81% | 11.87% | 13.16% | 14.46% | 15.31% | 16.03% | 16.85% | 17.48% | 18.22% |